MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

4 JUNE 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **4** pages with **4** Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Write your answers in the answer booklet provided.

QUESTION 1

KUALA LUMPUR - Malaysia's failure to resolve major corruption scandals is one of the main reasons the country fell seven spots to its worst-ever position in the annual Corruption Perceptions Index, an official of graft watchdog Transparency International (TI) said. Malaysia fell to number 62th ranking in the TI index last year, compared to its 55th ranking in 2016. This was the country's lowest position since the index was started in 1995.

"These scandals affected our score," said Chairman of TI Malaysia, Akhbar Satar at the launch of the index on Thursday (Feb 22), as quoted by The Malaysian Insight (TMI) news site.

Until these scandals are resolved satisfactorily, Malaysia's ranking is likely to further fall in the next few years, he was quoted as saying, referring to state fund 1Malaysia Development Bhd and agencies such as Felda and Tabung Haji. Singapore, meanwhile, moved up one position to rank 6th in the TI index. The Republic attained a score of 84 in the Corruption Perceptions Index for 2017. This was the same as Singapore's score the year before, though it has now inched higher to share the 6th spot with Sweden. Countries that took the top positions in the latest index, which ranked 180 countries, include New Zealand, Denmark, Finland, Norway and Switzerland.

Malaysia, since its 2014 score of 52, has been dropping every year, passing the halfway score of 49 in 2016. It scored 47 points in 2017. According to the score, this is considered as 'more corrupt'. TMI reported "We are at the same spot as Cuba. We should be better than them," Mr Akhbar told a news conference. He said if it were not for the aggressive arrests by the Malaysian Anti-Corruption Commission (MACC) over the past few years, Malaysia's ranking could have slipped further.

In response to the rankings, the MACC said its many anti-graft enforcement actions last year should have given Malaysia a higher ranking, The Star Online reported on Thursday. MACC chief Tan Sri Dzulkifli Ahmad said he was shocked with TI's findings and the country's latest position.

"There has been enforcement action taken almost every week and high-profile arrests throughout last year. We have taken aggressive efforts to combat corruption but it (the report) did not reflect all of our work," he told a news conference after an event.

"We should be in a better position compared to 2016," he was quoted as saying. Mr Dzulkifli said he was not dismissing the report and would study it further.

He noted that the perception index touched on other issues as well, such as governance, politics, human rights and the efficiency of doing business in the country, which is not under the purview of the MACC.

Malaysia drops to 62nd position in 2017, its worst, in corruption perceptions index
Published Feb 22, 2018, Asia Straits Times

Continued...

a. Effective corporate governance helps to eradicate corruption issues across the organization. Based on the corporate governance perspective, how does the role of board of directors lessen the incidence of corruption? Provide **5(five)** points to justify your answer.

(10 marks)

b. In the light of GONE Theory, what could be the contributing factors for increasing number of corruption cases in an organisation? Provide **2 (two)** examples for each element of the theory.

(10 marks)

c. Briefly discuss any **5 (five)** suggestions on how professional accountants' expertise and skills may be improved to deal with corruption cases.

(5 marks)

[TOTAL 25 MARKS]

QUESTION 2

Honda Malaysia has issued a product recall for 49,116 units of the Odyssey (2014-2017 model) and Accord (2013-2016 model) for faults in the makes involving battery sensor failure and a defective door mirror component. Honda said 20,233 units of the Accord are being recalled due to inaccurate forming on the printed circuit board in the battery sensor during the production process.

"This may cause electrical short circuit of the sensor, and possibilities of smoke coming from the hood or, in the worst case, a fire," it said in a statement issued yesterday.

Meanwhile, 27,912 units of the Accord and 971 units of the Odyssey are being recalled for a defective door mirror component.

"The defective door mirror component is due to inconsistent surface treatment of the movable contact area inside the door mirror retracting switch, which may cause the affected door mirror to retract during driving or parking," the statement said.

Honda said it has sufficient stock for current replacement requirements for both the battery sensor and defective door mirror component, and requests affected customers to make an appointment with an authorised dealer. All affected customers will be informed via notification letters, which will include details of the product recall. Any charges related to the product recall will be borne by Honda Malaysia.

"Honda Malaysia strongly encourages all affected customers to replace the defective battery sensor as it may become a fire hazard, and the door mirror component for a safer drive. Our risk committee team works excellently. Our risk committee assists the Boards in the fulfillment of its governance functions fully and efficiently" the company added.

(Source: Honda Malaysia Website)

Continued...

a. Assume that you are the Finance Director of Honda Malaysia. Based on 5-Questions Approach, explain to the board of directors of your company whether it would be appropriate for the company to recall their products.

(10 marks)

b. Briefly discuss the impact of product recall from the perspective of utilitarianism and deontology.

(5 marks)

c. Briefly discuss **5 (five)** roles of risk committee in ensuring the effectiveness of risk management in an organisation.

(10 marks)

[TOTAL 25 MARKS]

QUESTION 3

After 10 years working as chartered accountants, Mark and Salleh set up a company providing auditing, taxation and management consultancy services. This year, Salleh leads a team on a management consultancy assignment to a group of companies involve in the manufacturing synthetic construction materials. The group company operates through a complicated reporting line with significant control by the divisional director. The scope of the engagement letter for this assignment requires Salleh to provide expertise advice and help the group company to solve issues and create value that will maximise business performance. As for the reporting hierarchy, Salleh is required to report directly to the divisional director.

This year, Salleh's task started with the review of the production inefficiency of Product Z requested by the divisional director, Mr Hoe. This project is the primary responsibility of Mr Hoe. He was irritated after receiving information on deferment of delivery date on Product Z to their customers. Meanwhile, Salleh's team discovered few production inefficiencies such as slow machine, inappropriate spare parts replacement and design faulty. This delay may result in customer dissatisfaction as well as production compensation from customers.

Based on Salleh's team investigation, the inefficiencies may lead to an increase in production cost by RM4 million. Mr Hoe requested Salleh to prepare a formal report including the details of recommendations to reduce the significant incremental of production cost. The complete report will be presented by the divisional director during the Board meeting in the following month.

Recently, through a phone conversation, the group's finance director surprisingly request for the detail information of the production hazards on Product Z from Salleh. He told Salleh that his staff informed him about the production inefficiency. He also mentioned about RM2 million incremental cost incurred. He said that the divisional director is being over cautious about it. Salleh feels uneasy about this as Salleh are required to disclose the information to the divisional director as per their service engagement letter. Salleh starts wondering why the finance director appears to have incorrect information about the production inefficiency.

Continued...

a. Identify the main issue in the above case situation. Suggest who should be involved in the resolution?

(5 marks)

b. Briefly discuss **4 (four)** fundamental ethical principles that Salleh should follow as a professional accountant.

(8 marks)

c. Based on the above scenario, suggest **6 (six)** possible course of action that Salleh may take.

(12 marks)

[TOTAL 25 MARKS]

QUESTION 4

a. In March 2002, the Securities and Exchange Commission announced that it was investigating Arthur Andersen for audit deficiencies with respect to Enron audit. The auditor deficiencies lead to misunderstanding of the fiduciary role required by auditors.

Discuss **5(five)** areas where Arthur Andersen failed to fulfill their fiduciary role as an auditor.

(10 marks)

b. The audit committee assists the board of directors to fulfill its corporate governance responsibilities. The board should adopt a charter for the audit committee which outlines its authority, primary responsibilities and specific duties.

Identify **5(five)** roles of audit committee that ensure effectiveness of corporate governance in an organisation.

(10 marks)

c. Briefly explain **2(two)** concept of independence for an accountant.

(5 marks)

[TOTAL 25 MARKS]

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